

Discussion Paper

Potential Infill and Redevelopment Incentives

Lexington Planning Division
Revised September 27, 2004

Introduction

The purpose of this paper is to identify potential infill and redevelopment incentives. This paper recommends defining the market, its potential and developing an appropriate set of incentives to maximize the capture of housing and related redevelopment within the Urban Service Area. The list of proposed incentives is developed in light of existing incentives already available. This paper is organized under the following headings:

1. Housing Market Trends
2. Range of Possible I/R Incentives:
 - A. Introduction
 - B. Incentive Program Design
 - C. Proposed Program Objectives
 - D. Potential Infill and Redevelopment Incentives
 - E. Neighborhood Conservation Incentives

The term urban housing as used here, generally refers to multifamily housing types located closest to downtown because that area is the most compact and walkable part of the city. However, in a larger sense, all infill and redevelopment, both suburban-detached and other housing types within the Urban Service Area (USA) would serve equally well in the comprehensive plan goal to subdue demand for land encroaching into surrounding rural area. But within the USA, the central city is the preferred region because it is the most compact, walkable, mixed-use and/or transit accessible and thus the most efficient location for all types of housing.

Lexington is an anomaly compared to most other American cities in that it's a growth management community where both suburban and urban developments are contained within the same jurisdiction. Unlike most other large cities, Lexington has a scarcity of developable property, particularly inside New Circle Road. This is perhaps the biggest impediment to extensive infill and redevelopment here.

This project is part of an overall infill and redevelopment strategy for Lexington (1), including implemented zoning and design recommendations to improve the quality of infill in the core city. Especially important is the need to carefully consider the impact of infill incentives on historic areas of the city, to reinforce the city's heritage, and be sensitive to the unique character of the historic areas. These considerations should be a prime part of each incentive design and include appropriate objectives and policies to do so.

Housing Market Trends

Projected local population trends over the next twenty years are very similar to national trends, starting with shrinking average household size, which reached a record low of 2.6 in 2000 (compared with 2.3 in Fayette County). Married couples without children and single-person

households comprise the county's 2 most numerous household types (56%). In 1950, less than 10 percent of all households consisted of people living alone, compared with 32% today. Nationally, by 2020, married couples with children are projected to account for only one in five households. (2)

For the first time in history, we are looking at a population that will have roughly equal numbers of people in every age group. In keeping with this national trend, we will have a population that features nearly equal numbers of school age kids, young professionals, parents, young retirees, and the elderly, with the median age in 2000 of 33 years projected to be 37 years [sic] in 2030. (See Appendix A.) Additionally, the projected average annual 2 percent increase in local college enrollment over the next 20 years is an additional factor to be considered including an approximate increase of an additional 3,000 faculty and staff over the same period of time.(3)

A closely related national trend that will likely have strong local implications, is that as workers age, there will be fewer new bodies coming up the pipeline to replace them. According to projections by the US Bureau of Labor Statistics, the working age population (adults ages 16 to 54 who are neither in the military or in jail) will have grown by six million people from 2002 to 2012. By contrast, the 55 and over age bracket will have expanded by 18 million. (4) This is an emerging issue that has generated a number of municipal responses, including Louisville, to develop New American Initiatives programs that work toward reversing population decline in the workforce and strengthening the international community to live and work in these communities. A key element in successful attraction of New Americans is to promote favorable cost of living, cost of affordable housing being a key factor. (5) The trend also implies older Americans working longer with a consequential growing need (and opportunity) to accommodate live-work types of housing and related mixed-use settings.

Per national trends, no age group prefers urban residences over suburban locations and older householders, whether family or non-family – are less likely than younger ones to live in central cities. Since the driving demographic force for the future is age-based growth of households that have largely completed child rearing, the residential future of cities may well depend on how well they appeal to people in life's later stages. (6) However, nationally, the great majority of metropolitan householders were homeowners, and over four out of five lived in a suburban setting. (2) Based on local studies, this preference is especially true for Lexington. (7)

In short, successful urban housing will require a concerted effort to understand the needs and resources of a much more diverse household population if the Urban Service Area (USA) wishes to take advantage of these near term demographic shifts. This will require looking beyond trends that indicate who lives downtown and trying to understand the overall pattern of residential choices for each broad population segment. It requires finding out what motivations are driving their choices and identifying what factors could sway those choices. We must ask: How do these growing population segments view both the costs and benefits of urban versus suburban living? (2)

Successfully capturing these shifts will happen differently in different markets. A successful infill and redevelopment program will take a marketing rather than a sales approach to residential choices. Recall the fundamental difference between marketing and selling: selling is getting people to buy what you have, marketing is having what people want. In I/R this means finding out what people want, whether it be convenience, security, reduced maintenance, easy transport, particular amenities, or a particular type of house or neighborhood. It means designing a realistic and comprehensive package that effectively addresses what, at the margin, will make them

choose the central city over other locations. Most of all, it means recognizing that they have a choice. (2)

The staff recommendation is to develop the following study to best position the investment community to deliver housing products that people would want most: Develop a marketing study of consumer preferences for urban living and recommend an advertising campaign in close consultation with the development community. Based on the recommendations of the Brookings report, we should develop a study that:

1. Clearly identifies what each household segment really wants from housing,
2. Investigate household composition for each minority group, correlating any relationships with housing preferences,
3. Identify relationships between household income and composition, especially in relation to life stages and to racial and ethnic origin,
4. Develop a demographically oriented understanding of patterns in renting and owning, and
5. Develop “longitudinal” data that, basically, identify consumer attitudes: e.g., to what extent are young urban families committed to city living? Do people who are born in the suburbs tend to spend their lives there? To what extent do the growing numbers of pre-retirement adults who are no longer raising children change location? What are the patterns that attract central city home buyers, etc?

Range of Possible I/R Incentives

A. Introduction:

Based upon the housing market trends described above and in consideration of the existing incentive programs currently available, staff has developed the following list of potential I/R incentives to maximize market capture of urban housing within the Urban Service Area (USA).

The term “market capture” as used here refers to maximizing development of all housing within the USA, with preference given to locations closest to downtown and along bus routes. Areas closest to downtown are the most compact and walkable places, thereby increasing pedestrian access, reducing the number and length of car trips, conserving energy, reducing air pollution, and ultimately reducing transportation costs per resident. This subject has the potential for a larger discussion given the 3 nested areas of the designated I/R area (ie, neighborhoods closest to downtown and UK), inside New Circle Road (NCR) and outside NCR. Suffice it to say that all increased housing within the USA could ultimately help curtail the consumption of land in the surrounding rural area.

The idea of maximizing market capture at urban locations is reminiscent of the 1980 Comprehensive Plan concept for Urban Activity Centers. Although the suggestion here is for more confined areas to foster convenient walking distances, the concept is much the same to consolidate growth within the existing USA to create the most efficient pattern of urban development. (8)

B. Incentive Program Design:

Whether developers of urban infill housing need financial help from the public sector, how much, and what kind depends on the local market. To best judge these needs, staff recommends the following four things in connection with creating incentives:

- 1) To set clear preferences for the types of development desired,
- 2) To develop an incremental program of increasingly more expensive types of incentives to test whether the least expensive forms work well enough,
- 3) To require all city sponsored incentive participants submit blind financial data to measure program performance and to adjust the program as indicated, and
- 4) To set up specific, measurable program goals at the beginning of the process to assure that financial incentives are still needed and/or whether enough of a private market has been created to continue the level of public support and/or consider a shift in program emphasis.

The following list of potential I/R incentives is based on the above principles and separated further under two headings. The first list is infill or investor-sponsored redevelopment. The second focuses on neighborhood conservation incentives, the principal idea being that the city also conserve its quantity and condition of existing housing stock to maximum extent possible. These potential incentives are selected to complement existing incentive programs.

C. Proposed Program Objectives:

Based on this analysis, comprehensive plan goals, and the original I/R study recommendations, staff recommends the following 3 goals for the incentive program:

- a. Demonstrate successful, profitable new development types, prioritized in the following order:
 1. Live-work development
 2. Mixed-use development
 3. Mixed-income housing
 4. Higher-than-average housing density
 5. Sustainable development
 6. Innovative parking arrangements
 7. Degree of reinforcement of comp plan growth concepts
- b. Once the first objective is accomplished, test the profitability of incrementally greater amounts of minimal affordable housing requirements.
- c. Establish program evaluation criteria for the purpose of adjusting incentives as determined best or as needed.

The reason for the top 2 priorities for live-work development in objective “a.” is to help generate additional revenue for the city. The occupational license fee and net profits tax are its principle revenue sources. The opportunity to incent and capture employment-related housing is essential to its long term success in providing adequate levels of municipal services and facilities, particularly in light of the coming demographic shift to a significantly larger percentage of retired persons living in the urban county.

The second objective “b” is to introduce an affordable housing component for all incentive programs. This is important for several reasons including need, model development, and overall benefits in fostering a diverse population. The affordable housing component should be a minimal requirement initially and “ramp up” over time as the program and successful projects progress. Building permit data indicates that the core city has done an excellent job thus far in capturing its share of “workforce” housing. The city should strive to assure its continued success

in this area as well as expand affordable housing opportunities throughout the USA, to the extent that incentives can play a role in this larger comp plan goal.

The choice of incentives from the following lists needs to be integrated with existing incentives already available. A better understanding of the emerging housing market will permit existing and new incentives to be used together as efficiently as possible. It appears that some existing programs would be better utilized with improved publicity, funding or both. Some such programs are not listed here at this time due to the need for further research. The following recommendations were reviewed with an incentives focus group, comprised of about 20 local reinvestment interests on July 20, 2004.

D. Potential Infill and Redevelopment Incentives:

All of the following potential incentives are subject to further study and are listed in the recommended order of priority (as explained above). The list is intended as an inventory of potential devices but will require staff research and development of each selected item to verify it's feasibility and practicality of use. Based on staff direction to investigate each idea, staff would prepare a time and or cost estimate to research each potential program and report a staff recommendation for each.

- a. Existing Incentives List: There is a significant list of existing I/R incentives. A website should be developed posting all existing incentive programs, listing key information, and hyperlinks to the main sources. The list would need to be periodically reviewed and updated. Although staff has assembled a fairly comprehensive list of existing incentive sources, it does not yet include private sources such as financial intermediaries, foundations, pension funds, utilities and special-purpose private lenders (such as bank Community Development Corporations). Based on staff research, there is nothing this comprehensive currently available, anywhere.
- b. Housing Market Study: Although demographics trends tell a dramatic story, they do not assure a shift in market preferences. Instead, redevelopment success requires an understanding of the overall pattern of residential preferences for each broad population segment. The study would identify employment trends in the core city and any potential for increased employment, as well as niche markets such as persons seeking affordable housing, wanting to move back into the city, etc.
- c. Advertising Campaign: Based on the results of the marketing study, design an advertising campaign to reach the target market(s) and to develop a funding formula to share actual advertising expenses depending on its estimated impact, cost and duration. Potential market themes would be the advantages of urban living, urban amenities, life style choices, cost advantages, etc.
- d. Neighborhood Conservation Incentives: Based on the list in last section of this paper, develop a similar discussion paper to systematically identify potential incentives for improved neighborhood conservation. This recommendation is to provide a balance between potential reinvestment in the city from both private sources and community-based interests.

- e. Local Property Tax Abatement: Based on Louisville's current ordinances and our potential net revenue gain based on increased occupational license fees and net profits tax revenues, investigate the feasibility of the following:
 - i.) Property Tax Abatement: Establish a 5-year exemption of all urban county ad valorem taxes on all property used for new manufacturing and operated under certain conditions (a la Louisville code of ordinances Chapters 38.21 and 38.23).
 - ii.) Property Reassessment Moratorium: Establish a 5-year assessment moratorium for all residential and commercial structures at least 25 years old where either (a) the cost of improvements exceeds 25% of the value of the structure or (b) where the value of such improvements exceeds 10% of the value of the property within a disadvantaged target area (a la Louisville code of ordinances Chapter 154).

The investor savings resulting from these abatements are modest - but staff could investigate the effectiveness of these devices in Louisville and make a recommendation as to their possible value for Lexington. There may be certain legal issues as well.

- f. Vacant Lot/Developable Land Inventory: Because land is such a critical factor in development, perhaps the most important information the city can make available is an inventory of vacant land and buildings suitable for rehabilitation. It should be a periodically updated computer mapping of each property and include information on ownership, current use, zoning and current tax value, etc. This would also serve as an excellent economic development tool permitting more convenient site search studies routinely conducted by prospective development interests.

One particular interest of the incentives focus group is the systematic identification of underutilized property. This is a large area of discussion. Suffice it to say that staff has recommended an underutilized property survey technique to the DDA in preparation of its downtown master plan. If done, this would be a test case for performing such a survey of the entire city, which both focus group participants and planning commission have expressed interest in doing.

A much larger and more ambitious data project urged in focus group discussions is the creation of a linked city and PVA database. The purpose of such a project would be to permit quick research all of pertinent information for a given property, eg, zoning, code violations, assessed value, engineering status, etc. Quick and convenient access to this type of information would expedite property research and related reinvestment decisions. The decision to move forward on this would require staff to first perform some typical case studies to test the cost/benefit of such a significant undertaking and, second, should immediately involve staff in the pending citywide data system study; a key player in the creating such a linked database.

- g. Successful Case Studies: As a part of the existing incentives website above, develop a catalog of successful infill case studies complete with financial information. As a part of this effort, staff has found an excellent source of such infill case histories in the ULI publication, *Developing Successful Infill Housing*. (9), as well as other sources.
- h. Expanded Historic Preservation Tax Investment Credits: Based on preliminary discussions with the state preservation tax investment credit coordinator, support possible expansion of current federal and state TICs for reuse/rehabilitation of historic structures. There is a standing proposal to establish state provisions (HB638) and separate specific improvements that could be made in federal law to expand the scope and impact of these credits. The key local issue is to first assess the estimated impact in Lexington and it's cost/benefit of supporting the needed legislative changes at the national as well as state level. More research is needed. (10)
- i. Property Owner Education / Redevelopment Guidebook: This effort is intended to address the broad range of property owner and potential reinvestor interest in redevelopment opportunities in Lexington. It would be a systematic, public information program involving the full range of print and other media to convey the city's interest in soliciting I/R in Lexington. This should be approached in a comprehensive way, to carefully identify the target audience and its information needs, much along the lines of the market study in item #b. above.
- j. Zoning/Subdivision Regulations Rewrite: Based on staff experience and numerous developer comments, reformat the city's zoning and subdivision ordinances. The main purpose would be to simplify the regulations and to make them much more user-friendly by using simplified language, and numerous tables, charts and extensive use of drawings and diagrams wherever possible and useful. This would be a significant undertaking but is felt, as in many communities throughout the country that have done in recent years, would greatly benefit smaller scale development that typically doesn't have the financial resources to hire consultants to interpret and process complex and esoteric regulations. Smaller sites are especially important in infill and redevelopment and would probably benefit most from this type of project.
- k. Clear Title Assistance: This is a reported problem by some accounts in a difficulty in assembling potential infill sites and is a particularly difficult problem in Fayette County. The basic problem is that of the approximately 3,900 vacant lots in the county, roughly 50 percent do not have an identified owner and, other than foreclosure at public auction, do not have any way of conveying "clear" title (i.e., title that is clear of encumbrances, liens and/or improperly probated, etc.). The cost of legal/detective work for these typically small, remnant parcels far exceeds their nominal value – but they are often critical in the assembly of larger parcels of adequate redevelopment size.

The first order of business for this project would be to create a map of all such vacant lots in the city to identify the pattern of contiguous lots and the extent of such potential lots closest to the central city. This would confirm the scope of the problem and set the stage for what will surely be a difficult set of policy choices.

- l. Property Acquisition: An equally elusive quarry, by some accounts, is the unwilling seller. Conventional wisdom suggests creative approaches such as joint ventures, land swaps, emphasizing benefits and alleviating tax consequences, and ultimately, the power of public condemnation. As a practical matter, recent CBD land sale prices are up to \$27 per square foot. This is roughly twice typical land sale prices there, but seems supportable depending on the type of planned development. But other asking prices as high as \$40 per foot is also reported. Based on focus group discussion, this was not a critical issue in that they felt the market would find its own level of value.
- m. I/R Facilitator: An invaluable source of assistance can be provided through a development facilitator that assists selected types of projects through the redevelopment process. Expectations need to be clearly defined from the beginning, for both the public agency and the customer community. The best approach to serve the widest audience is to prioritize desired types of developments while at the same time, providing a public education program to empower the much broader public-at-large with key information and resources. There may be a special opportunity to guide small businesses to technical and financial assistance programs as well (especially important for the revenue reasons explained earlier). Focus group comments have consistently urged strong support for this proposal. Two Planning Commission members also expressed strong support.
- n. Front Façade/Signage Rehab Assistance: This is a comparatively much less expensive financial assistance program that can have a significant visual impact. The current LFUCG program was only funded at the \$10,000 level and funds are exhausted. Program eligibility is for historically approved improvements within downtown business zones. Program awards are a maximum grant of \$5,000 and up to a \$5,000 loan at zero interest. The program should be expanded and staged to include surrounding neighborhood commercial areas.
- o. Certified Property Manager Training Programs: This is a special incentive to encourage apartment building owners to hire trained on-site building managers. It is especially useful in problem properties in that apartment managers are trained in tenant relations, security and related operations. This is a comparatively low cost program that can have a significant impact on surrounding areas.
- p. Smart Growth Housing Programs: These are specialized housing programs that offer subsidies to low-to-moderate income home buyers who choose to locate within a designated area for a strategic public purpose; such as designated employees choosing to live within a certain distance of a bus stop, etc. (eg, Louisville's Smart Ride Program). Persons awarded must usually reside at the subject premises for a period of at least 3 years before the subsidy is forgiven. It has been noted that the requirements of the Community Reinvestment Act may serve as a basis for discussion with local financial institutions to assist with these and other types of community reinvestment incentives.
- q. Infrastructure Financing: There are a variety of potential techniques that could fund needed infrastructure improvements. However, this is a complicated area to assess due to the need to first review the scope and effectiveness of current

programs. The Sanitary Sewer Oversight Committee is examining this critical issue and has been presented with the needs to conduct a systematic inventory of existing SS conditions within the downtown area. This would be an expensive study. The Steering Committee expressed strong support of this project and suggested a reduced cost approach of prioritizing potential "hot spots" and gradually incurring study costs. They also said that the original sanitary sewer fiscal model should be reexamined and possibly lengthened to amortize the cost of older SS infrastructure that they think may not have been considered original modeling.

- r. Subsidized Secondary Financing: This is more popularly known as one form of, "gap" financing where a subsidizing entity loans a limited portion to a traditional project using conventional financing. As an example, a fund may loan up to a certain amount at a minimal interest rate contingent upon a minimal level of the applicant's equity participation. This is a very cost efficient program over the long term because it is usually operated as a revolving loan that recoups the loan principle over a period of time and/or until the program is terminated. The DDA is in the process of setting up just such a fund for housing development.
- s. Reduced Development Fees: At the request of the Steering Committee and Planning Commission, this would be an investigation of possible reduction in LFUCG development fees to incent redevelopment. This idea was not included in earlier drafts of this paper due to the city's strained budget situation last spring; but Committee and Commission members felt that this is a potential cost/benefit should at least be examined.
- t. Public Redevelopment Agency: This is an umbrella public agency that typically possesses a wide range of special authorities not available to the private sector including the power of condemnation, below-market loan rates, and full time staff devoted to its mission. And in fact, there is active LFUCG urban renewal commission that still meets periodically to administer past projects; its jurisdiction covers a specific geographic area. This would be a major step in providing I/R incentives because of the initial and on-going staffing costs as well as capital funding. Depending on the extent of success of the above potential incentives, it may be worthwhile to eventually explore the feasibility of staffing such an agency.

E. Neighborhood Conservation Incentives:

The following is a summary list only of likely neighborhood conservation incentives that are being developed. In the process of researching this topic, we discovered that this is a separate project unto itself involving a wide range of considerations and private charitable activities. It is intended that many of the following potential devices should solicit community and private agency involvement. It is not intended that all or even most of the following potential programs be publicly sponsored but, instead, to work closely with existing community and professional organizations to sponsor and operate selected activities.

- a. Neighborhood Housing Maintenance Information and technical assistance including improved access to rehabilitation trades people

- b. Existing Housing-Consumers Financial Assistance Inventory (see Cincinnati “Homeownership Partnership” website and neighborhood guidebook, Houston’s “Homeownership Campaign”, and Columbus, OH residential market study)
- c. Home Improvement Finance Education
- d. Community Development Corporations (i.e., homesteading, land banking, revolving loan funds, community land trusts, housing trust funds, etc.)
- e. Improved LFUCG Resources for Neighborhood Planning
- f. Neighborhood Improvement Grants

The above recommendations are intended as areas for potential development and will need to be researched and evaluated on a case-by-case basis. Not all or even most of the above recommendations may be feasible. Instead, the above lists are intended to identify the most likely possibilities at this time, pending further research of each.

Acknowledgments

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Notes:

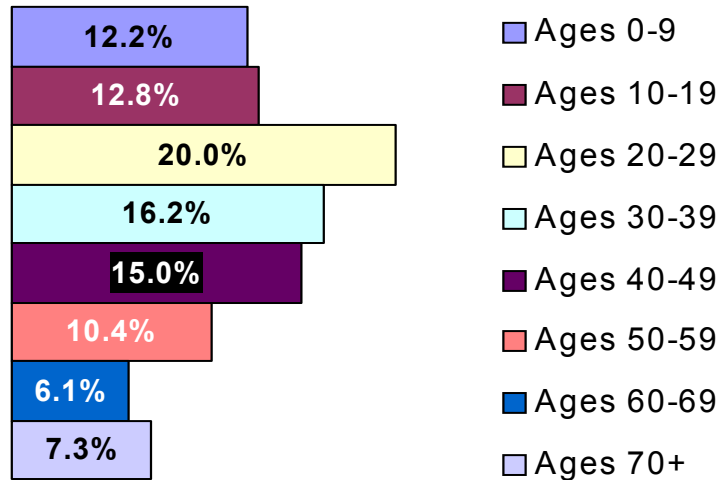
- (1) LFUCG, “*Residential infill and Redevelopment Strategy*,” Residential and Infill Redevelopment Design Standards, 2001, PP. 7-21 (prepared by Winter & Company, consultant)
- (2) Martha Farnsworth Riche, “*The Implications of Changing US Demographics for Housing Choice and Location in US Cities*” (a discussion paper prepared for the Center on Urban and Metropolitan Policy, Brookings Institution, March 2001) (see www.brook.edu/urban)
- (3) University of Kentucky, “*Physical Development Campus Plan 2050*”, Published 2003 (see <http://acs.uky.edu:8500/default.asp?fldr=CampusPlan>)
- (4) Eduardo Porter, “*Coming Soon: The Vanishing Work Force*,” The New York Times, August 29, 2004, PP. 1&2, Business Section
- (5) Center for Competitive Work Force Development, Duquesne University, New Americans and the Future of Pittsburgh: International Communities and Regional Economic Development, August, 2002 (<http://www.iet.duq.edu/ccwd/index.htm>, link "Pittsburgh International Communities Project" – related Louisville websites listed in report)

- (6) Lawrence Goldblatt & Ruth Knack, " *Recruiting Retirees: What State and Local Governments are Doing to Attract Aging Baby Boomers*," Planning, March, 2004, PP. 30-32
- (7) Danter Company, " *A Housing Needs Assessment of Lexington*," 2001 (consultant study prepared for LFUCG)
- (8) LFUCG, " *1980 Comprehensive Plan: Growth Management System*," PP. 84 & 85
- (9) Suchman, Diane R., *Developing Successful Infill Housing*. Washington, DC: ULI – the Urban Land Institute, 2002 (see www.bookstore@uli.org)
- (10) An introduction to the subject of federal historic tax investment credits can be found at either the National Park Service website <http://www2.cr.nps.gov/tps/tax/index.htm> or IRS website, <http://www2cr.nps.gov/tps/tax/IRS.htm>.

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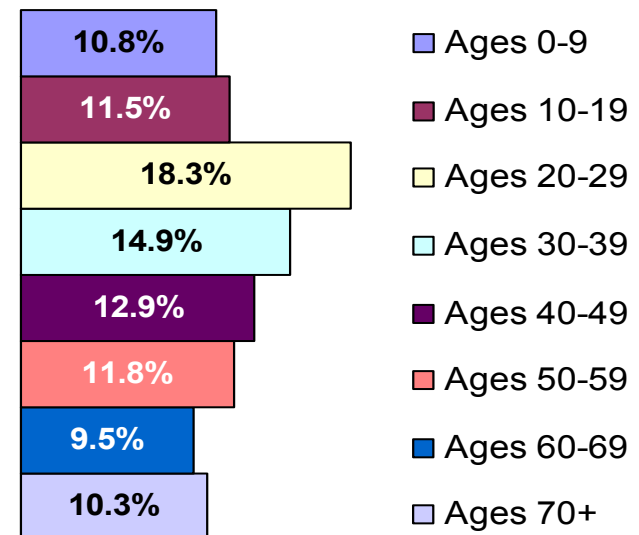
Appendix A

**Age Group Distribution, 2000
Fayette County, KY**



Source: US Census of the Population, 2000

**Projected Age Group Distribution, 2030
Fayette County, KY**



Source: Kentucky Population Projections. 2004. Kentucky State Data Center and Kentucky Population Research. 17 May 2004
<<http://ksdc.louisville.edu/kpr/pro/projections.htm>>.